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STATE OF MONTANA
OFFICE OF THE CONSUMER COUNSEL
FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1997

PERFORMED UNDER CONTRACT BY:

JAMES J. WOSEPKA, PC
CERTIFIED PUBLIC ACCOUNTANTS

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FINANCIAL-COMPLIANCE AUDIT FOR THE
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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

September 1997

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Consumer Counsel for the two fiscal years ended June 30, 1997.

The audit was conducted by James J. Wosepka, Certified Public Accountant, under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

97C-04

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ELECTED AND APPOINTED OFFICIALS
LEGISLATIVE CONSUMER COMMITTEE
1995-1997

SENATORS

REPRESENTATIVES

John Harp
Gary Forrester (Resigned 12/96)
J. D. Lynch (Appointed 4/97)

Joe Quilici
H. S. Hanson

Consumer Counsel
Robert A. Nelson

INTRODUCTION

We performed a financial-compliance audit of the Office of Consumer Counsel for the two fiscal years ended June 30, 1997. The objectives of the audit were to: (1) determine if the financial schedules present fairly the Counsel's results of operations in accordance with the State's accounting policies for the two fiscal years ended June 30, 1997; (2) determine if the Counsel complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the Counsel.

We thank the staff of the Consumer Counsel for their cooperation and assistance during our audit.

BACKGROUND

Article XIII of the Montana Constitution of 1972 created the Consumer Counsel giving it the responsibility of representing consumer interests in hearings before the Public Service Commission. The Consumer Counsel has the ability to initiate, intervene in, or participate in the proper proceedings in the courts or administrative agencies, on behalf of the Montana public interests. The Office of Consumer Counsel is funded by a Consumer Counsel tax that is assessed on all the regulated entities that are under the jurisdiction of the Public Service Commission.

INTERNAL CONTROL

We have examined the financial schedules of the Consumer Counsel for the two fiscal years ended June 30, 1997. We issued our opinion dated August 14, 1997 on these schedules. As part of our examination, we made a study and evaluation of the Counsel's control system. Our study evaluated the system as required by government auditing standards for financial compliance audits. We classified the controls in the following categories:

1. Expenditures/liabilities;
2. Property, plant, and equipment; and
3. Payroll.

Our study included the control categories listed above. We applied alternative audit tests to property, plant, and equipment as we determined it was more efficient to expand substantive testing for this area. Through my study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or system as a whole.

The management of the Office of Consumer Counsel is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by

management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Consumer Counsel.

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of the document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The Office of Consumer Counsel was last audited for the fiscal years ending June 30, 1994 and 1995, under contract through the Office of the Legislative Auditor. No audit recommendations were made.

CURRENT AUDIT RECOMMENDATIONS

None

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the Consumer Counsel. In our opinion, the Consumer Counsel complied with the state laws and regulations tested. Nothing came to our attention that caused us to believe untested compliance issues were not in accordance with applicable laws and regulations.

INDEPENDENT AUDITORS' REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

JAMES J. WOSEPKA, PC
CERTIFIED PUBLIC ACCOUNTANTS
LICENSED IN NORTH DAKOTA AND MONTANA

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INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee
Of the Montana State Legislature:

We have audited the financial schedules of the Office of the Consumer Counsel for each of the two fiscal years ended June 30, 1996 and 1997, as listed in the table of contents. These financial schedules are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and estimate made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the Office's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to in paragraph one present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Consumer Counsel for each of the two fiscal years ended June 30, 1996 and 1997, in conformity with the basis of accounting described in Note 1.

James J. Wosepka, PC

Baker, Montana
August 14, 1997

By  CPA

CONSUMER COUNSEL
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996 AND 1997

	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1995	\$ 249,523
ADDITIONS	
<u>Fiscal Year 1995-96</u>	
Cash Transfers In	810,331
REDUCTIONS	
<u>Fiscal Year 1995-96</u>	
Budgeted Expenditures & Transfers Out	(816,813)
Prior Year Expenditure Adjustments	<u>61</u>
FUND BALANCE: June 30, 1996	\$ 243,102
ADDITIONS	
<u>Fiscal Year 1996-97</u>	
Cash Transfers In	764,865
REDUCTIONS	
<u>Fiscal Year 1996-97</u>	
Budgeted Expenditures & Transfers Out	(735,294)
Prior Year Expenditure Adjustments	<u>465</u>
FUND BALANCE: June 30, 1997	\$ <u>273,138</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 6, 7 and 8.

CONSUMER COUNSEL
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT - BUDGET AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996 AND 1997

	<u>1996</u>	<u>1997</u>
PERSONAL SERVICES		
Salaries	\$ 242,098	\$ 258,375
Employee Benefits	<u>49,411</u>	<u>52,530</u>
Total	<u>291,509</u>	<u>310,905</u>
OPERATING EXPENSES		
Other Services	452,323	348,665
Supplies & Materials	4,626	4,893
Communications	9,828	7,840
Travel	20,093	23,120
Rent	11,004	11,196
Repair & Maintenance	2,437	1,169
Other Expenses	<u>11,333</u>	<u>21,709</u>
Total	<u>511,644</u>	<u>418,592</u>
EQUIPMENT AND INTANGIBLE ASSETS		
Equipment	<u>13,599</u>	<u>5,332</u>
Total	<u>13,599</u>	<u>5,322</u>
TOTAL PROGRAM EXPENDITURES	<u>816,752</u>	<u>734,829</u>
SPECIAL REVENUE FUND		
Budgeted	\$ 1,020,614	\$ 1,054,624
Actual plus prior period expenditure adjustments of \$61 and \$4605 respectively	<u>816,813</u>	<u>735,294</u>
Unspent Budget Authority	\$ <u>203,801</u>	\$ <u>319,330</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 6, 7 and 8.

OFFICE OF THE
CONSUMER COUNSEL

NOTES TO THE FINANCIAL SCHEDULES
JUNE 30, 1996 AND 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Consumer Counsel utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual, such basis differs from generally accepted accounting principles in the following material respects:

under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy;

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
- Obligations for employees' vested leave and sick leave are recorded as expenditures when paid.

Basis of Presentation

The financial schedules were prepared from Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the Consumer Counsel:

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation is required to spend from this fund.

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick

OFFICE OF THE
CONSUMER COUNSEL

NOTES TO THE FINANCIAL SCHEDULES (CONT.)
JUNE 30, 1996 AND 1997

Vacation and Sick Leave (cont.)

leave are not reflected in the financial schedules of the Consumer Counsel. Expenditures for termination pay are currently absorbed in the annual operational costs of the Counsel. At June 30, 1996 and 1997, the Counsel had liabilities for compensated absences of \$47,415 and \$56,520, respectively.

2. PENSION PLAN

Employees are covered by Montana Public Employees' Retirement System (PERS). The Consumer Counsel's contributions to the plan are shown below:

Fiscal Year	Fiscal Year
<u>1996</u>	<u>1997</u>
\$ 16,045	\$ 17,267

3. OPERATING LEASE

The Consumer Counsel had a lease agreement for office space under an operating lease that expired June 30, 1997. Total rental expense under the lease is as follows:

Year Ended	Amount
<u>June 30,</u>	
1996	\$ 11,004
1997	11,196

The Consumer Counsel is now on a month to month lease at \$945 per month.

OFFICE OF THE
CONSUMER COUNSEL

NOTES TO THE FINANCIAL SCHEDULES (CONT.)
JUNE 30, 1996 AND 1997

4. BUDGET

The budget for each year included a contingency appropriation of \$100,000 for unanticipated cases.

AGENCY RESPONSE

Montana Consumer Counsel



Robert A. Nelson

Consumer Counsel

Frank E. Buckley, *Rate Analyst*

John B. Bushnell, *Economist*

Mary Wright, *Attorney*

Celia Farlan, *Secretary*

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34 W. Sixth Avenue

P.O. Box 201703

Helena, Montana 59620-1703

September 4, 1997

Mr. James J. Wosepka, CPA

PO Box 602

Baker MT 59313

Dear Mr. Wosepka,

We have reviewed your draft Financial Compliance Audit for the two fiscal years ended June 30, 1997 concerning our financial schedules, and have no comments or exceptions to your report.

I would like to take this opportunity to thank you for minimizing the burden placed on our staff in conducting the audit; your advance instructions were very helpful, and, as always, it was a pleasure working with you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert A. Nelson".

Robert A. Nelson

Montana Consumer Counsel

